



# Rise Policy Paper

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| Policy ID         | EQ268  |
| Policy            | Abolish VAT in 2 stages                          |
| Short Description | The 2 stages will be accomplished within 2 years |

*You can change how you present the policy as you feel best suits. For example, you may wish not to have it broken down into present state and future state, but rather have a single section that describes the policy. Change this template to suit your needs.*

## Present State:

Most people probably know how VAT works, but I have met people who don't so first I'll bore you with the workings. While VAT is collected throughout the business cycle in the end it's a tax on the consumer. For example, if a business buys a product for £1.20, then 20p of the total price is VAT (assuming the supplier is a VAT registered company). The 20p is called input tax. The business then sells the product, let's say for £2.40 of which 40p is VAT. The 40p is output tax. When the business then pays the VAT, he deducts the input tax from the output tax and passes the 20p over to HMRC. The business has made £1 on the sale of the product (bought for £1, sold for £2) as they've simply collected tax. In this scenario the only person paying tax was the consumer (40p). This is a simplistic description of VAT. The chain can be longer and there are exemptions on certain products and services. But, as a whole, it works as described.

The problem is VAT is a regressive tax. This means the poorer you are, the more of your income you will spend on VAT. Across the income spectrum there is a marked difference with those on the lowest 10% of income and those on the highest. [\(1\)](#)

The UK first introduced VAT on joining the European Economic Community (EEC) in 1973. The UK had previously charged a purchase tax which applied. The six original members of the EEC harmonised their VAT regimes<sup>[1]</sup> to reduce the distortion of export refunds, which gave member states a potential competitive advantage over one another and produced economically distortionary effects.

The UK VAT system operates within parameters set by EU VAT directives, a system that only applies to EU member states. Typically EU VAT directives<sup>[2]</sup> do not apply to members of the European Economic Area (EEA).



At the end of the [transition period](#), the UK will leave the VAT area. However, under the terms of the Withdrawal Agreement, [Northern Ireland will remain fully aligned with the EU's VAT rules on goods](#). The UK government will be responsible for implementing these rules in Northern Ireland and the UK will retain any revenue raised, rather than passing it on to the EU as now.

In theory the UK could abolish VAT after Brexit, but in practice it is very unlikely. VAT is a major revenue raiser<sup>[3]</sup>, forecast to raise approximately £125bn in 2017/18, which amounts to 18% of tax receipts.

VAT is also the International Monetary Fund's "tax of choice" and over 160 countries have now introduced it – it accounts for 20% of tax revenue globally. The UK has been party to the internationally agreed standards of the OECD International VAT/GST guidelines<sup>[4]</sup> and is unlikely to reject this approach.

The government's technical guidance for businesses preparing for the end of transition indicates the government plans to continue to have a VAT system in the UK.<sup>[5]</sup>

## Future State:

## References

1. **The Equality Trust.** Britain's Poorest Households Pay More Of Their Income in Tax Than The Richest. [Online] 27 April 2017.  
<https://equalitytrust.org.uk/news/britains-poorest-households-pay-more-their-income-tax-richest>.